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Internal Audit (IA) Effectiveness: Resource-Based and Institutional Perspectives

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ABSTRACT

Background: IA provides assistance to an organization in achieving its objectives through assessing and improving the effectiveness of risk management, control and governance processes. However, it is not simply the establishment of an IA function that is significant, but most importantly is the quality and its effectiveness. Hence, it is necessary to investigate the antecedents of the IA effectiveness in an attempt to ensure that an IA function is able to assist an organization in achieving its objectives and in improving its operations. For that reason, the main objective of this paper is to propose a theoretical framework that combines the resource-based and institutional theories in investigating the antecedents of the IA effectiveness. The combination of resource-based and institutional perspectives is deemed paramount as it highlights on the importance of the internal resources and the external environment of an organization in investigating determinants of the IA effectiveness.

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INTRODUCTION

Internal audit provides assistance to organization in achieving its objectives through assessing and improving the effectiveness of risk management, control and governance processes. A review of literature indicates that internal auditing is also important in improving accountability and performance (2002) as well as enhancing governance (Ali, Gloeck, Ali, Ahmi and Sahdan, 2007; Goodwin and Kent, 2004; Gramling, Maletta, Schneider and Church, 2004; Pforsich, Kramer and Just, 2006). In fact, the emphasis on internal auditing as an essential part of the governance process has increased considerably especially after series of corporate failures, malpractices, proliferation in the number of reported fraud cases and the economic crisis. At present, internal auditing has become an indispensable management tool in improving the effectiveness and efficiency of service delivery and in achieving effective governance and control in various organizations (A. Cohen and Sayag, 2010; Eden and Moriah, 1996).

The roles of internal auditing have undergone major transformations along with the changes in its environment and recent development in governance requirements. The roles have evolved to a stage where emphasis is to add value and to improve an organization's operations. This transformation has resulted in increased attention to the issue of the IA effectiveness. This is due to the validity of the idea that an effective IA could add value to organizations (Mihret, James and Mula, 2010). Similarly, Davidson, Goodwin-Stewart and Kent (2005) argued that it is not simply the establishment of an IA function that is significant, but most importantly is the quality and its effectiveness. Based on the argument, it is necessary to investigate the antecedents of the IA effectiveness in an attempt to ensure that an IA function is able to assist an organization in achieving its objectives and in improving its operations. Therefore, this paper attempts to propose a theoretical framework that combines the resource-based and institutional theories in investigating the antecedents of the IA effectiveness.

Underlying Theories:

A number of theories were used in discussing internal auditing such as agency theory, transaction cost theory, institutional theory, Marx's theory of the circuit of industrial capital and resource dependency theory. Though, the predominant theoretical focus of previous studies related to accounting and auditing rests upon the foundation of the agency theory. With respect to the IA effectiveness, agency theory emphasizes on the application of the standard principal-agency premise in explaining the interest of

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management in maintaining an effective IA function. According to Adams (1994), management will incur bonding costs such as the cost of IA in order to indicate to the shareholders that they are acting responsibly and consistent with their contract of employment to secure their positions. However, similar to Mihret, James and Mula (2010), it is argued that the premise of the agency theory focusing mainly on the standard principal-agent relationship is not sufficient to address IA research in diverse contexts and varied perspectives especially in investigating the determinants of the IA effectiveness.

As a result, this paper suggests on the combination of theories namely; the resource-based theory and the institutional theory in investigating antecedents of the IA effectiveness. The proposed application of these theories in examining the IA effectiveness hopes to offer an imperative contribution to the body of knowledge in the study of internal auditing since previous research on the IA function focused mainly on the application of agency cost framework (Carcello, Hermanson and Raghunandan, 2005; Carey, Simnett and Tanewski, 2000; Goodwin-Stewart and Kent, 2006; Wallace and Kreutzfeldt, 1991).

Resource-Based Theory:

Until 1990s, in an attempt to understand the potential sources of competitive advantage, considerably attention was given to the external environment approach, and the strategic analysis which mainly emphasized on the external or industry environment and competitive positioning of the organization (Barney, 1991; Grant, 1991). In 1990s, however, the resource-based view was developed and the focus shifted from the external environment to the internal context of the organization. The new perspective subsequently highlighted on the organizational resources and capabilities as a primary source of competitive advantage (Barney, 1991; Grant, 1991; Kazlauskaiteē and Bučiūnienē, 2008).

A fundamental proposition of the resource-based theory is that firms are heterogeneous (Barney, 1991; Esteve-Perez and Manez-Castillejo, 2008). Each organization is seen as a distinctive collection of tangible and intangible resources and capabilities that are acquired, developed and expanded over time. The resource-based theory focuses on an organization’s resources as determinants of differences in the organization’s performance and behavior. According to this theory, a firm must look for unique attributes that may provide superior performance. This theory was built around the internal competencies of firms (Dierickx and Cool, 1989; Prahalad and Hamel, 1990; Wernerfelt, 1984). Similarly, Grant (1991) stated that the resource-based theory emphasizes on internal, firm-specific factors and their effect on performance; it perceives organizations as collection of resources which are combined to form organizational capabilities. Thus, competitive advantage is originated from the inside of a firm, in assets that are valuable and unique (Russo and Fouts, 1997).

As documented by Barney (1991), “resources include all assets, capabilities, organizational process, firm attributes, information, knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (p.101). Similarly, Bryson *et al*. (2007) described resources as any asset that can be utilized and used to help an organization achieving its objectives and perform well. However, to accomplish certain productivity, these resources require support and synchronization. Since the capability is the capacity for a coordinated collection of resources in performing some tasks and activities, resources are the source of an organization’s capabilities, and in turn, capabilities are the major source of its competitive advantage (Grant, 1991).

In particular, the resource-based theory does not consider all resources possessed by an organization but focuses rather only on strategic resources i.e. those that are the basis of the organization’s sustainable competitive advantage (Amit and Schoemaker, 1993; Rangone, 1999). A number of authors have proposed a number of tests in determining such resources. However the most popular assessment was provided by Barney (1991). According to Barney (1991), the resources should hold the potential of sustained competitive advantage when it has four attributes: (a) It must be valuable; (b) It must be unique or rare among a firm’s current and potential competition; (c) It must be imperfectly imitable and (d) Non-substitutability.

In the resource-based view, various classifications of resources have been proposed in the literature. Wernerfelt (1984) for instance, classified resources as physical assets, intangible assets and organizational capabilities that are partially and permanently bind to the organization. However, Grant (1991) classified resources into homogeneous groups namely: tangible, intangible and human resources. Tangible resources include financial and physical resources such as plant, machinery and equipment. Intangible resources include technology and reputation while human resources refer to culture, training, expertise, commitment and loyalty of employees. In contrast, Barney (1991) asserted that resources are heterogeneously distributed among organizations and that many resources are not perfectly imitable or substitutable. Barney (1991) classified resources into physical capital resources, human capital resources and organizational resources. Physical capital resources include the physical infrastructure, geographic location, and its access to raw materials. Human capital resources include the training, experience, knowledge, intelligence, relationships, and insight of individual managers as well as the expertise and skills of the workers. Organizational capital resources incorporate a firm's formal reporting structure, its formal and informal planning, controlling and coordinating systems as well as informal relations among groups within a firm and between a firm and those in its environment.

Several other researchers have also provided explanations on classification of resources. For instance, Hall (1993) stated that resources employed to create competitive advantage are classified as tangible (e.g. financial resources, capital, production capability, etc) or intangible assets (e.g. intellectual property, trade secrets, corporate reputation, culture, etc). Similarly, Fahy and Smithee (1999) classified resources as: (1) tangible assets; (2) intangible assets and (3) capabilities. Tangible assets normally have a fixed long run capacity and the properties of ownership, relatively uncomplicated to measure and relatively easy to duplicate. On the other hand, intangible assets comprise of intellectual property, having relatively unlimited capacity and being relatively not easy to duplicate. Capabilities are invisible assets, covering the skills of individuals and groups, organizational routines and interaction, having not clearly defined property rights and being extremely hard to duplicate. Recently, in examining various resources affecting agency performance, Lee (2009) has further classified organizational resources into six types namely; administrative (structural) resources, human resources, financial resources, physical resources, political resources and reputation resources.

Based on the above discussion, it can be concluded that basically resources are classified into tangible and intangible assets. However, tangible assets are easy to duplicate by competitors and most of the resource-based view scholars claimed that they are a relatively weak source of competitive advantage and economic benefit (Barney, 1991; Grant, 1991; Kapelko, 2005). Intangible resources on the other hand, are considered as more important to an organization and hold the potential of sustained competitive advantage because it is highly difficult to be duplicated (Hall, 1992). Besides, one of the objectives of the resource-based theory is to help managers to appreciate why intangible assets such as individuals skills, organizational knowledge and competencies can be perceived as valuable assets and to understand how these assets can be used to improve business performance (Caldeira and Ward, 2003). Furthermore, intangible assets are portrayed as more prominent than tangible assets because they are more likely to meet Barney's (1991) four conditions as mentioned before. This is supported by findings from previous studies conducted by Bontis, Chua and Richardson (2000); Carmeli and Tishler (2004); Flatt and Kowalczyk (2008) as well as Galbreath (2005).

The application of the resource-based view in investigating performance in prior studies shows that the resource-based theory has emerged as a very popular theoretical perspective for explaining performance for over the last two decades and has obtained an enormous attention in the strategic management literature (Newbert, 2007). In fact, the resource-based theory has also emerged as a key perspective guiding inquiry into the determinants of organizational performance (Crook, Ketchen, Combs and Todd, 2008; Newbert, 2007). Notwithstanding its important insights, the resource-based view has not observed further than the properties of organizational resources in influencing the sustainable competitive advantage. Particularly, it has not investigated the social context within which resources are embedded and how this context might affect performance. In the spirit of extending the resource-based view, this paper proposes a combination with the insights from the Institutional Theory (DiMaggio and Powell, 1983; Scott, 1987) in investigating the IA effectiveness.

Institutional Theory:

The Institutional Theory suggests that organizations are both influenced by and can influence the society in which they operate (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). The Institutional Theory emphasizes the rules that are imposed by external parties, especially government; the values and norms that are internalized in roles as part of the socialization processes; and the cultural controls that underpin the belief systems that are supported by the professions (Collier and Woods, 2007). The basic principle of the institutional theory is that the organizations' tendencies towards conformity with predominant norms, traditions and social influences in their internal and external environments can lead to homogeneity among organizations in their structures and activities (Oliver, 1997). Hence, successful organizations are those that obtain support and legitimacy by conforming to social demands. This is supported by institutional theorists who asserted that conformity to social expectations could contribute to organizational success and survival (DiMaggio and Powell, 1983; Oliver, 1991).

The new institutional theory or neo-institutionalism was articulated by Meyer and Rowan (1977) as well as DiMaggio and Powell (1983). According to Meyer and Rowan (1977), the argument that organizations were structured by phenomena in their institutional environment and could increasingly become isomorphic with them was an important characteristic of neo-institutionalism. The isomorphic process, then, would stimulate the success and survival of organizations. An organization would be able to enhance the commitment of their internal participants and external constituents by integrating externally legitimated formal structures and organizational practices (Hu, Hart and Cooke, 2007). This is because according to Meyer and Rowan (1977),“by designing formal structures and employing organizational practices that adhere to the prescriptions of myths in the institutional environment, an organization exhibits that it is acting on collectively valued purposes in an appropriate and satisfactory manner” (p.349). In other words, Meyer and Rowan suggested that organizational structures in such an environment become could symbolic displays of conformity and social accountability.

Two of the most important components of the neo-institutional theory are the institutionalization process and the isomorphism process (Hu, *et al*., 2007). Tolbert & Zucker (1983) defined the institutionalization process as “the process through which components of formal structure become widely accepted, as both appropriate and necessary, and serve to legitimate organizations” (p.25). The adoption of the institutionalized norms, values and behaviours was also known as the search for legitimacy in the environment (Zucker, 1987). Legitimacy was defined by Suchman (1995) as “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (p.574). DiMaggio and Powell (1983) asserted that legitimacy was the outcome of an organization conforming to forces in the external environment. It is essential for organizations because it would create the perceptions, credibility, persistence and meaningfulness within the environment (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) and may also enhance their prospect of survival (Meyer and Rowan, 1977).

The second important component of neo-institutionalism is the isomorphism process. Isomorphism is the process by which organizations begin to adopt similarities and form a homogenous set of organizations (DiMaggio and Powell, 1983). The Institutional Theory of DiMaggio and Powell looks at the environment surrounding organizations as an important aspect in determining their behaviors. According to Zucker (1987), when organizations adopt the legitimized elements from the external environment, isomorphism is attained and the probability of survival is frequently improved. DiMaggio and Powell identified three general mechanisms of isomorphism: (1) Coercive isomorphism, (2) Mimetic isomorphism and (3) Normative isomorphism.

Coercive isomorphism occurs when the organization is compelled to adopt formal or informal structures or rules, including government mandate (DiMaggio and Powell, 1983). Coercion stresses the role of rules and regulations and originates from political influence and the need for legitimacy. In other words, coercive isomorphism occurs from forces put forth on organizations and decision-makers to follow or adopt certain institutionalized rules and practices by other organizations upon which they are dependent and by cultural expectations from the society within which the organizations function. Mimetic isomorphism is when one organization imitates another, often because of uncertainty. Mimetic isomorphism stresses that organizations attempt to model themselves on the practices of similar organizations in the same field, which they perceived to be more legitimate (DiMaggio and Powell, 1983). According to Hu *et al*. (2007), mimetic behavior has substantial economic advantage because it diminishes the cost of finding a practical solution when organizations are faced with similar problems with vague causes or uncertain results. Normative isomorphism suggests convergence through socialization whereby this isomorphic relates to influence from professional bodies and consultants operating in the field (DiMaggio and Powell, 1983). Normative pressures can appear from various sources. According to DiMaggio and Powell, normative institutions include educational organizations, trade associations, industry groups, interest groups and public opinion.

The institutional theory has been applied in control systems by many researchers including Burns & Scapens (2000), Collier & Woods (2007), Covaleski & Dirsmith (1988) as well as Gupta, Dirsmith, & Fogarty (1994). Apart from that, previous researchers such as Al-Twaijry, *et al*. (2003); Arena *et al*. (2006); Arena & Azzone (2007); Christopher, Sarens & Leung (2009) as well as J. Cohen, Krishnamoorthy & Wright (2008) have also adopted the institutional theory in exploring accounting and auditing innovations. Specifically, the institutional theory has recently obtained great attention from researchers in voluntary adoption and the development of the IA function might be due to its’ appropriateness in supporting its validity for interpreting the process of adoption and enactment of innovations (Arena and Azzone, 2007).

For instance, Al-Twaijry *et al*. (2003) used the institutional theory to examine the development and effectiveness of the IA function in the Saudi Arabian corporate sector. The findings of their study indicate that IA was not well developed. Where IA departments did exist in their organizations, their operations were carried out with inadequate resources, lacking qualified staff, had restrictions on their degree of independence, concentrated on compliance audit compared to performance audit and the internal auditors were not accepted by the management and auditees. Therefore, these researchers advocated that the government should play a greater coercive role by supporting organizations to adopt the IA function and organized their activities as specified in the IA Standards.

Likewise, Arena *et al*. (2006) embraced the institutional theory in describing the major attributes of the IA departments in Italian companies by investigating the influence of enacted regulations on their development. Their study had specifically focused on coercive isomorphism and the research was performed through a multiple case study. The findings of their study confirmed the significance of coercive pressure. It was found that there was an influence of regulations on the development of IA, and the influence was stronger when regulations imposed sanctions. In addition, it was noted that there were also elements of mimetic and normative pressures influencing the development of the IA departments.

Unlike the study performed by Arena *et al*. (2006) which concentrated on the coercive pressure, another study by Arena and Azzone (2007) focused on the three forms of isomorphism (coercive, mimetic and normative) in the institutional theory perspective in examining factors that drive the adoption and characteristics of the IA departments. In this study, coercive pressure was related to two factors namely; industry and listing requirements. Mimetic isomorphism was explained using companies' size and the normative pressure was related to membership of companies in the Institute of Internal Auditors (IIA) local affiliate. The study had highlighted the relevance of isomorphic pressures in influencing companies' support for internal auditing. The findings of the study also showed that there was an increasing attention towards IA activities, resources and competencies.

Al-Twaijry *et al*. (2003), Arena *et al*. (2006) as well as Arena and Azzone (2007) focused solely on the institutional theory in supporting their studies in the adoption and development of internal auditing. However, Christopher *et al*. (2009) had combined the application of the institutional theory and the agency theory in examining the independence of the IA function in relationship to the audit committee and management. Based on a critical comparison of responses from questionnaires sent out to Australian chief audit executives (CAEs) versus existing literature and best practice guidelines, the results of their study showed that several threats were identified with regard to the IA function's relationship with management.

Similar to Christopher *et al*. (2009), J. Cohen *et al*. (2008) did not focus mainly on the arguments in the institutional theory in supporting their study. Instead, they sought to provide a more comprehensive view of corporate governance then presently available from the agency literature so often applied in auditing and accounting studies. Particularly, they explored three extensively recognized additional theoretical perspectives: resource dependence, managerial hegemony and the institutional theory. Using the multiple theoretical perspectives, they provided instances of how these alternative theories could offer significant new insights to issues in auditing research and practice. In their study, the institutional theory provided useful insight whereby the researchers asserted that practitioners should be alert that the board might be engaging in ritualistic or symbolic activities mainly to demonstrate to external parties that the trappings of governance were available and that the regulatory requirements were being fulfilled. More recently, Mihret *et al*. (2010) suggested the employment of the institutional theory and Karl Marx's theory of the 'circuit of industrial capital' to synthesize relevant theoretical and empirical IA literature to develop propositions on the antecedents and organizational performance implications of the IA effectiveness. The use of the two theories could provide insights into identifying the antecedents of the IA effectiveness. However, the propositions developed by the researchers have not been empirically tested to establish their validity. Besides Mihret *et al*. (2010), other studies on the IA effectiveness using the institutional theory perspective are rather limited.

Internal Audit Effectiveness:

Generally, effectiveness is achievement of objectives or goals. Effectiveness is defined by the Oxford Dictionary as having an effect or ability to bring about the result intended. Omar *et al*. (2007) defined effectiveness as the accomplishment of the goals of an organization, a program or activity. Dittenhofer (2001) also explained that effectiveness as the accomplishment of goals and objectives using factor measures provided for determining such achievement. Therefore, basically the IA effectiveness is an accomplishment of the internal auditing objectives. A different perspective of the IA effectiveness definition was presented by Mizrahi and Ness-Weisman (2007). They defined audit effectiveness as the number and scope of deficiencies corrected. Although the definition given is different, the implication of the definition is the same i.e. the achievement of the objective. This is consistent with Sawyer (1995) who agreed that the tasks of internal auditing are not completed until defects are corrected and remain corrected and it has the ability to present useful findings and constructive recommendations. Hence, an IA function will not be able to achieve its objectives if defects remain uncorrected and recommendations of internal auditors are not implemented. According to Van Peursem (2005), issues relating to the IA effectiveness is worthy of attention since an effective internal auditing is important in providing independent information needed in assisting organizations to improve control, risk management and governance processes. Thus, understanding the factors that determined the IA effectiveness is imperative.

Determinants of the IA effectiveness are divided into two; internal and external factors. Internal factors are elements within organizations that have impact on the IA effectiveness. Internal factors can be classified into four categories namely; organizational characteristics, departmental characteristics, employee characteristics and managerial practices. Organizational characteristics refer to attributes of an organization that influence the IA effectiveness. The characteristics include level of loan, financial performance and risk exposure. Carcello *et al*. (2005) mentioned that companies with higher debt levels appeared to invest more heavily in internal auditing so as to mitigate their higher agency costs. They also found that IA budgets were greater in firms with greater operating cash flows. Meanwhile, risk exposure is also one of the factors that can influence the IA effectiveness (Mihret, *et al*., 2010).

Departmental characteristics are attributes of the IA department. The characteristics include independence of the IA function, size of the IA department and staff composition. Brown (1983), Chun (1997), Karapetrovic & Willborn (2000) as well as Reinstein & Gabhart (1987) highlighted that independence of the internal audit function was crucial to its viability. Size also has impact on IA effectiveness. A larger IA department is more likely to enhance the quality of internal auditing due to a larger scope of the internal audit work (Mazlina, Subramaniam and Stewart, 2006). Staff composition is another aspect that can influence IA effectiveness especially nowadays the roles of internal auditing are changing and getting more challenging (Enyue, 1997). Hence, internal auditors need a broad range of competencies (Sterck and Bouckaert, 2006) and knowledge (Enyue, 1997).

Employee characteristics mainly focus on human resource elements related to members of the IA department who are directly involved in internal auditing and the auditees. The employee characteristics include competency, quality of work performed and auditees' attitudes towards IA. Competency and quality of work performed were important criteria used by the external auditors in evaluating the quality of the internal audit performance (Al-Twaijry, Brierley and Gwilliam, 2004; Brown, 1983; Felix, Gramling and Maletta, 2001; Hasnah, Chambers, Ramsi and Ismail, 2004; Maletta, 1993; Margheim, 1986; Messier and Schneider, 1988; Schneider, 1984, 1985). Meanwhile, Mihret and Yismaw (2009) highlighted that the relationship between the internal auditors and the auditees was critical in improving the IA effectiveness.

Managerial practices focus on the roles of management towards enhancing the IA effectiveness. The elements include top management support and interaction with the audit committee. It was emphasized by IA scholars that the performance of internal audit depended greatly on the attention and support by the top management (Sawyer, 1995; Van Gansberghe, 2005; Xiangdong, 1997). Similarly, Arena and Azzone (2009) found that the extent of interaction between the internal auditors and the audit committee positively related to the IA effectiveness.

External factors basically focus on the influence of other parties outside the organization that can influence the IA effectiveness. The factors include coordination with the external auditors, government support and the role of the professional body such as the Institute of Internal Auditors (IIA). Brody *et al*. (1998) emphasized that the achievement of goals of the audit as a whole depend on the collaboration of the internal and external auditors. Al-Twaijry *et al*. (2003) and Ali *et al*. (2007) on the other hand, emphasized that the government needed to play a significant role in highlighting the importance of the internal audit function especially through enforcing laws and issuing a complete, detailed and up-to-date guidelines. Arena *et al*. (2006) found that besides the relevance of coercive pressure in developing internal auditing, normative pressure from professional bodies and consultants operating in the field could positively influence the development of internal auditing.

Discussion:

To date, it appears that there are limited studies that had examined the determinants of the IA effectiveness. Thus, this paper attempts to suggest a theoretical framework that combines the resource-based and institutional theories in investigating the antecedents of the IA effectiveness. The present paper emphasizes that the internal resources as well as the external environment are critical factors in achieving the IA effectiveness. The resource-based theory is viewed as capable to offer a plausible and coherent explanation on the significance of the valuable and rare resources in facilitating the formulation of strategies leading to a superior performance of the IA function. The resource-based perspective which highlights the importance of the internal organizational resources as a primary source of competitive advantage, organization performance and behavior (Barney, 1991; Grant, 1991) is highly relevant in investigating the influence of the tangible and intangible assets on the IA effectiveness. Therefore, parallel with the resource-based theory that relates the internal resources of an organization in achieving added advantage, this study highlights the relative significance of the internal organizational factors in facilitating the success of internal auditing. Consideration of the applicability of the resource-based theory in investigating IA effectiveness is based on the argument that if an organization possesses a number of specific internal resources or capabilities to a greater extent, the IA effectiveness will be improved. This is because the IA department, similar to other departments in an organization, requires resources in order to provide their services (Kruger, Steyn and Kearney, 2002). As shown in Figure 1, internal factors can be divided into four namely, organizational characteristics, departmental characteristics, employees characteristics and managerial practices. This new perspective attempted to contribute to the existing growing body of knowledge by suggesting the alternative application of the resource-based perspective in investigating the effect of the organizational resources and capabilities on the IA effectiveness.

Despite its importance, exclusively employing the resource-based perspective in examining the IA effectiveness can be considered to be far from comprehensive as it could undermine the pivotal roles of the external pressures from the environment. This is due to the reason that the resource-based theory only focuses on the internal resources of an organization. Organizations as well as the IA departments are also affected by pressures from the external environment such as the government and other stakeholders. This is supported by assertion of DiMaggio and Powell (1983); Meyer and Rowan (1977) and Scott (1987) that the consideration of applying the institutional theory is due to its institutional theoretical assertion which essentially posits that organizational management and control structures tend to conform to social expectations and organizations are likely to focus on the pressure and limitations of its environment (Oliver, 1991). The isomorphic behavior of organizations facing similar conditions as suggested by DiMaggio and Powell (1983) could be a means of understanding the conforming and legitimating processes that could have affected the IA effectiveness. DiMaggio and Powell emphasized that three main external forces namely; coercive, mimetic and normative isomorphism could influence individuals as well as organizations. As such, the present paper also highly suggests the application of the institutional theory to explain the influence of the external factors on the IA effectiveness. This is inline with other researchers such as Mihret *et al*. (2010) who also purported that pressures from the external stakeholders could certainly exert institutional pressures on the performance of an IA function. As shown in Figure 1, external factors focus on the three isomorphisms.

Prior studies indicated that the government has a significant and substantial influence on the development of IA (Al-Twaijry *et al*., 2003; Ali *et al*., 2007). Thus, in the context of IA effectiveness, coercive isomorphism relates mainly to the government support. With regards to normative isomorphism, DiMaggio and Powell (1983) stated that this isomorphic pressure can emerge from various sources such as educational organizations, trade associations, industry groups, interest groups and public opinion. For internal auditing, isomorphic pressure relates to influence from professional bodies and consultants operating in the field. Therefore, this paper suggests that normative isomorphism relates to the influence of the Institute of Internal Auditors (IIA) as IIA plays a significant role in the internal auditing. Meanwhile, size represents mimetic isomorphism. Generally smaller organizations have tendency to model themselves on the practices of larger organizations. DiMaggio and Powell (1983) asserted that mimetic isomorphism stresses that organizations attempt to model themselves on the practices of similar organizations in the same field, which they perceived to be more legitimate.

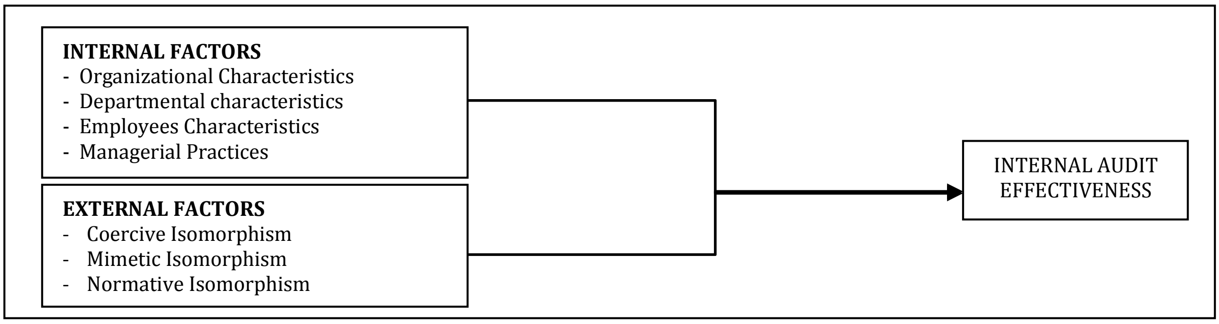

Fig. 1: Proposed Theoretical Framework.

Conclusion:

An effective IA function has the potential to reinforce and strengthen the control, governance, accountability and performance of organizations. Thus, identifying aspects that could enhance the IA effectiveness is extremely crucial both in the corporate and public sectors organizations. Based on the relevance of the two theories namely; the resource-based theory and the institutional theory, it was argued that both the internal organizational factors and external factors could influence the IA effectiveness. The combined perspectives are viewed capable to provide explanation on the influence of the internal and external factors on the IA effectiveness. Moreover, the framework could contribute to each of these two theories by means of supporting and extending the application of the theories in the research of internal auditing both in the profitable and non-profitable organizations. Hopefully, this may help in the implications and designs of further studies in the future. Last but not least, the resultant benefits acquired from the IA effectiveness hopefully could be translated into improved performance.

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